UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Nora Mead Brownell, and Suedeen G. Kelly.

Southwest Power Pool, Inc. Docket No. ER06-729-000

ORDER CONDITIONALLY APPROVING TARIFF REVISIONS

(Issued May 11, 2006)

1. In this order, we conditionally approve Southwest Power Pool, Inc.'s (SPP) Open Access Transmission Tariff (OATT) revisions that modify the loss compensation provisions of Attachment M to SPP's OATT to reflect SPP's proposed Energy Imbalance Service (EIS) markets to become effective as set forth below.[1] SPP is required, among other things, to provide additional specificity in the SPP OATT explaining its loss compensation procedures including how it will designate Transmission Owners for the payment of losses associated with through and out transactions and which market price will be used if the designated Transmission Owner has native load at more than one settlement location.

Background

2. On June 15, 2005, SPP made a filing (June 15 Filing) to establish EIS markets within SPP's footprint. As part of the June 15 Filing, SPP proposed certain modifications to its loss compensation procedures in Attachment M to its OATT. On September 19, 2005, the Commission issued an order[2] that rejected the June 15 Filing, including the modifications to the loss compensation procedures, and provided guidance. With respect to the guidance on the loss compensation procedure, the Commission stated:

[1] SPP's proposed EIS market is a real-time energy imbalance market that will implement least cost security constrained economic dispatch to develop Locational Imbalance Prices (LIP). An LIP is the market clearing price at a specific location, which is equivalent to the marginal cost of serving load at that location. For simplicity, an LIP is referred to in this order as the market price.

[2] *Southwest Power Pool, Inc.*, 112 FERC ¶ 61,303 (September Order), *order on reh'g*, 113 FERC ¶ 61,115 (2005).

> We encourage SPP to explain its loss compensation procedure in more detail, including the revenue distribution for the loss revenue. Since SPP proposes to charge for losses that are not self-supplied, through the purchase of energy from the imbalance energy market, SPP should explain why it will settle the energy delivered and payments made for losses by reconciling with each zone and directly allocating to each zone. Further, SPP should explain the rationale for settling losses based on the sink nodal price instead of the source nodal price, and demonstrate that no over- or under-recovery will occur by using the sink nodal price. Finally, we encourage SPP to submit illustrative examples to demonstrate how SPP's loss compensation procedures function and to address Xcel's concerns on losses.[3]

3. SPP's filing of March 14, 2006 (March 14 Filing) in this proceeding is intended to address the Commission's concerns. SPP proposes two major revisions.[4] First, when financially settling losses, SPP proposes to use market prices to determine losses for all transactions instead of using the Houston Ship Channel gas price as a proxy for the market price.[5] For transactions into and within SPP, SPP proposes that the market price at the sink location will be used. For through and out transactions, SPP proposes to use the market price of the settlement location that represents the price associated with service to the Transmission Owner's native load for each Transmission Owner deemed to have provided such losses. SPP states that this change more accurately represents the value of the loss energy because actual market prices are used instead of a proxy for market prices.

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[3] September Order at P 63. Xcel protested the use of different loss compensation procedures for transactions sinking in SPP's transmission system versus transactions sinking outside of the SPP region. *Id*. at P 62.

[4] SPP notes that it is not proposing any changes to the calculation of the transmission customer's loss responsibility applicable to each transaction. The network customer's loss responsibility for network loads connected to the transmission system will continue to be determined by multiplying the zonal loss factor and the energy delivered within that zone by the network customer. For point-to-point customers and network customers with network load not connected to the transmission system, the loss responsibility continues to be determined by weighting the zonal loss factor of each zone impacted by the transaction by the amount of the transaction's impact.

[5] SPP states that it used the Houston Ship Channel gas price as a proxy for market prices because there was no established centralized electric market in the SPP region.

4. The other major revision involves the methodology for settling self-supplied losses associated with through and out transactions. SPP proposes to arrange to have the loss energy delivered to load in the control area of a designated Transmission Owner in real-time and charge that Transmission Owner for the energy delivered at a price equal to the market price of the settlement location that represents the price associated with service to the Transmission Owner's native load.[6] SPP will then distribute the revenue collected to the Transmission Owners deemed to have actually provided the losses to compensate them for the transaction.[7]

5. Transmission Owners will be compensated for their costs of providing loss energy; therefore, any difference in the revenue collected from the Transmission Owners who received the energy and the total cost incurred by the Transmission Owners to supply that energy will be uplifted, pursuant to the revenue neutrality uplift provisions in section 5.6 of Attachment AE.

6. SPP states that the basic structure of the existing Attachment M has not changed. It still uses a matrix approach to determine loss responsibility. It also continues to allow self-supply or financial payments for losses under the same terms as before, except, as indicated, the market price is now the EIS market price instead of a proxy based on the Houston Ship Channel gas price index.

7. SPP requests an effective date of May 1, 2006, which is the date SPP expected the EIS market to commence operations when it made the March 14 Filing.

Notice of the Filing and Responsive Pleadings

8. Notice of SPP's March 14 Filing was published in the *Federal Register*, 71 Fed. Reg. 15,406 and 71 Fed. Reg. 16,771 (2006), with interventions and protests due on or before April 4, 2006. Western Farmers Electric Cooperative (Western Farmers) filed a timely motion to intervene and comments.

9. Western Farmers state that SPP's requested effective date of May 1, 2006, which was intended to coincide with the May 1, 2006 effective date of the EIS market proposal, should be changed to October 1, 2006 or such other date as the Commission may provide, to coincide with the new effective established by the Commission for the EIS market.[8]

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[6] SPP proposes to set forth the process through which Transmission Owners will be designated in a business practices publication to be developed by SPP.

[7] The cost incurred by the Transmission Owners to provide the service is calculated using SPP loss matrix in the same manner as is used for financial settlement.

[8] *Southwest Power Pool, Inc*., 114 FERC ¶ 61,289 at P 1 (2006).

10. Western Farmers also fault SPP’s proposal for not explaining in relation to through and out transactions how it will designate Transmission Owners as responsible for self-supplied losses and liable to purchasing those self-supplied losses. Western Farmers note the filing states that the process through which Transmission Owners will be designated will be set forth in a business practices publication to be developed by SPP. Western Farmers ask that the Commission require SPP to develop those business practices through the stakeholder process and also require SPP to file the business practices that are developed so that Transmission Owners will understand the process by which they must pay for losses. Western Farmers state that, at a minimum, SPP should provide a more detailed explanation of that process in this proceeding.

11. Western Farmers also state that SPP should clarify the market price that will be used if a Transmission Owner has native load in more than one “Settlement Location.”

12. SPP filed an answer to Western Farmers’ comments. SPP agrees that the Commission should grant an effective date of October 1, 2006 in order to remain consistent with the effective date of the EIS Market proposal. SPP also confirms that the procedure through which Transmission Owners will be designated to purchase self-supplied losses is currently being developed through SPP’s stakeholder process. SPP anticipates being able to submit these procedures as revised Tariff provisions in a supplemental filing by May 19, 2006. SPP expects that the supplemental filing will also address the issue of the market price that will be used if a Transmission Owner has native load in more than one “Settlement Location” or Control Area.

Discussion

Procedural Matters

13. Pursuant to Rule 214 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2005), Western Farmers’ timely, unopposed motion to intervene serves to make it a party to this proceeding. Additionally, Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2005), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept SPP’s answer because it has provided information that assisted us in our decision-making process.

Commission Determination

14. SPP has made progress on addressing the concerns about its loss compensation procedures, but we find that additional detail in the SPP OATT is still necessary. Therefore, we conditionally accept SPP’s proposal to become effective on October 1, 2006 or such later time as the EIS market becomes effective and subject to additional filings, as discussed below.

15. In response to Western Farmers' concerns, SPP has agreed in its answer to clarify for self-supplied losses associated with through and out transactions how Transmission Owners receiving the loss energy are designated and how SPP will determine the market price a receiving Transmission Owner must pay if the Transmission Owner has native load in more than one settlement location. We believe that developing the loss compensation procedure through the stakeholder committee process and filing revised OATT pages, as SPP has said it would in its answer,[9] is preferable because it will reduce the likelihood of subsequent disputes.[10] SPP must include explanations and tariff revisions for these issues in the compliance filing required in this order, as it has agreed to do in its answer.

16. The Commission's conditional acceptance in this proceeding is based heavily on the illustrative example provided by SPP explaining how the proposed compensation procedures operate because SPP's OATT still does not provide sufficient detail to adequately inform readers how SPP will compensate for losses. For example, with respect to losses associated with into or within transactions (section IV.A of Attachment M), the OATT provides that all transactions will be priced at the sink market price but does not state the identity of the party that pays the price. If the Transmission Customer that self-supplies losses were to be assessed this price and also supply the loss energy that SPP delivers to the sink settlement location, that would be a double charge for losses.[11] Consequently, we require SPP to provide additional detail and clarity in the SPP OATT with respect to its loss compensation proposal so that the rates SPP is charging are clear and Attachment M to SPP's OATT conforms to the Commission's regulations.[12] We require SPP to clearly explain in the OATT each step in the settlement of losses and plainly differentiate the settlement of losses for network transmission service from the

[9] SPP Answer at pp. 3-4.

[10] *Midwest Independent Transmission System Operator, Inc.*, 108 FERC ¶ 61,163 at P 657, *order on reh'g*, 109 FERC ¶ 61,157 (2004), *order on reh'g*, 111 FERC ¶ 61,043, *order on reh'g and compliance filing*, 113 FERC ¶ 61,081 (2005) (portions of business practice manuals that directly affect rates should be included in the tariff).

[11] SPP should make the following minor corrections. SPP uses the term "Customer" in the section which is an undefined term. SPP should replace it with the correct term in the section which is "Transmission Customer." Additionally, in the revised Attachment M the term "Settlement Location" should bet capitalized throughout.

[12] *See* 18 C.F.R. § 35.1 (2005) ("Every public utility shall file…full and complete rate schedules…clearly and specifically setting forth all rates and charges for any transmission or sale of electric energy…[and] the classifications, practices, rules and regulations affecting such rates and charges.").

point-to-point transmission service; into and within transactions from through and out transactions; and financial settlement from settlement for self-supplied losses. SPP's clarifications should also fully explain the revenue distribution under each scenario above.

17. Additionally, responding to the September Order's request that SPP demonstrate that there will be no over or under-recovery by using the market price at the sink location, SPP proposes to preclude any potential over or under-recovery by subjecting the loss compensation procedure to the neutrality uplift process set out in section 5.6 of Attachment AE.[13] Because other RTOs have experienced higher uplift payments than expected, we will accept this provision conditioned on SPP making a filing one year after commencement of the EIS market detailing the amount of the neutrality uplift payments associated with losses for Commission review. Moreover, SPP is directed to add further clarity to its OATT to explicitly identify all transactions which are subject to the neutrality uplift charge in section 5.6 of Attachment AE. The into and within transactions section of Attachment M includes only a vague reference to "settlement of the Energy Imbalance Service Market as described in Attachment AE," while the through and out transactions contains an explicit reference to section 5.6 of Attachment AE.[14]

18. Finally, we shall establish as the effective date for this filing the effective date of the EIS market, which is currently expected to be October 1, 2006 or on such later date as SPP's EIS market becomes effective.

<u>The Commission orders:</u>

(A) SPP's March 14, 2006 filing is accepted to be effective October 1, 2006 or on such later date as SPP's EIS market becomes effective, subject to the conditions in the body of this order and to further Commission orders addressing SPP's EIS market and Attachment AE.

(B) SPP must file the explanations and OATT revisions required in the body of this order in a compliance filing within 30 days of this order.

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[13] Transmittal at 5.

[14] Further confusing matters, the transmittal letter indicates that the neutrality uplift process in section 5.6 of Attachment AE would only be necessary for the into and within transactions because SPP claims in its transmittal letter that for through and out transactions the revenue collected exactly equals the cost of the losses deemed to have been provided. Transmittal at 5.

(C) SPP must make a filing one year after commencement of its EIS market detailing the monthly amount of the neutrality uplift payments associated with losses for into and within transactions as well as for through and out transactions.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.